



**KEYSER MARSTON ASSOCIATES**  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

**MEMORANDUM**

ADVISORS IN:  
REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
ECONOMIC DEVELOPMENT

SAN FRANCISCO  
A. JERRY KEYSER  
TIMOTHY C. KELLY  
KATE EARLE FUNK  
DEBBIE M. KERN  
ROBERT J. WETMORE

LOS ANGELES  
CALVIN E. HOLLIS, II  
KATHLEEN H. HEAD  
JAMES A. RABE  
PAUL C. ANDERSON  
GREGORY D. SOO-HOO

SAN DIEGO  
GERALD M. TRIMBLE  
PAUL C. MARRA

**To:** Jim Davies, Community Development Coordinator  
City of San Diego Redevelopment Agency

**From:** KEYSER MARSTON ASSOCIATES, INC.

**cc:** Tracy Reed, Project Manager

**Date:** April 13, 2006

**Subject:** Chollas Parkway Market Summary

**Introduction**

In accordance with our agreement, Keyser Marston Associates, Inc. (KMA) has conducted an assessment of key market conditions for the Chollas Triangle and the surrounding area. Specifically, the study area is located at the southeast corner of 54<sup>th</sup> Street and University Avenue, and consists of 27 parcels under 14 different ownerships. The study area lies within the boundaries of the Crossroads Redevelopment Plan, which was adopted to stimulate economic growth, infrastructure improvement, and the preservation and retention of housing stock in the community.

The study area is currently impacted by various deficiencies in public infrastructure and amenities, physical blighting conditions, and incompatible land uses. However, there are a number of factors that set the stage for the area's redevelopment, including a strong local-serving tenant base dominated by Asian and other ethnic retail and restaurants, as well as signs of increased developer interest in urban in-fill housing.

**Methodology**

In order to assess development potential within the study area, KMA relied on a windshield tour, third-party data, and our general knowledge of development trends in the trade area and region. KMA has attached documentation supporting our conclusions regarding market conditions and key opportunities. These include the following:

- Trade area map indicating 1- and 3-mile rings
- Land use assessments for residential, retail, and office development
- Estimate of supportable land value by product type
- Comparable land sales by type, i.e., vacant vs. improved

### **Key Findings**

KMA's key findings are summarized below.

<b>Residential</b>	<p>There is a strong demand for housing of all types throughout the County. A Countywide scarcity of residential land has increased developer interest in in-fill development.</p> <p><i>Key Opportunity:</i></p> <ul style="list-style-type: none"><li>▪ Townhomes – 15 to 30 units/acre</li><li>▪ Condominiums – 40 to 60 units/acre</li></ul>
<b>Retail</b>	<p>University Square and other major community and regional retail in the trade area represent strong competition. Surrounding Asian and other ethnic retail and restaurants present a strong base in which to build upon. New in-fill housing demand will increase demand for retail, eating and drinking, and other services.</p> <p><i>Key Opportunity:</i></p> <ul style="list-style-type: none"><li>▪ New mixed-use development with re-built Sears Essentials as anchor tenant</li><li>▪ Major chain drug store, i.e., Walgreen's, Rite-Aid, Sav-On, Longs</li><li>▪ Small grocer, i.e., Henry's, Sprouts, Jimbo's, etc.</li></ul>

<b>Office</b>	<p>The closest notable office projects are the Metro Center and Urban Village developments in City Heights and the Imperial Marketplace. Most of the other office space scattered throughout the trade area consists of older low-rent buildings utilized by small, local-serving tenants.</p> <p><i>Key Opportunity:</i></p> <ul style="list-style-type: none"><li>▪ Office developed in a mixed-use (retail) context</li><li>▪ Flex commercial space designed to accommodate either retail or office users</li><li>▪ Possible demand for health care related uses based on study area's proximity to Villa View Community Hospital</li></ul>
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### **Limiting Conditions**

1. The analysis contained in this document is based, in part, on data from secondary sources such as state and local government, planning agencies, real estate brokers, and other third parties. While KMA believes that these sources are reliable, we cannot guarantee their accuracy.
2. The analysis assumes that neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.
3. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured.
4. Market feasibility is not equivalent to financial feasibility; other factors apart from the level of demand for a land use are of crucial importance in determining feasibility. These factors include the cost of acquiring sites, relocation burdens, traffic impacts, remediation of toxics (if any), and mitigation measures required through the approval process.

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5. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity.
6. The analysis, opinions, recommendations and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.

attachments

## EXHIBIT A

### SUBJECT SITE AND COMPETITIVE TRADE AREA CHOLLAS VIEW CITY OF SAN DIEGO

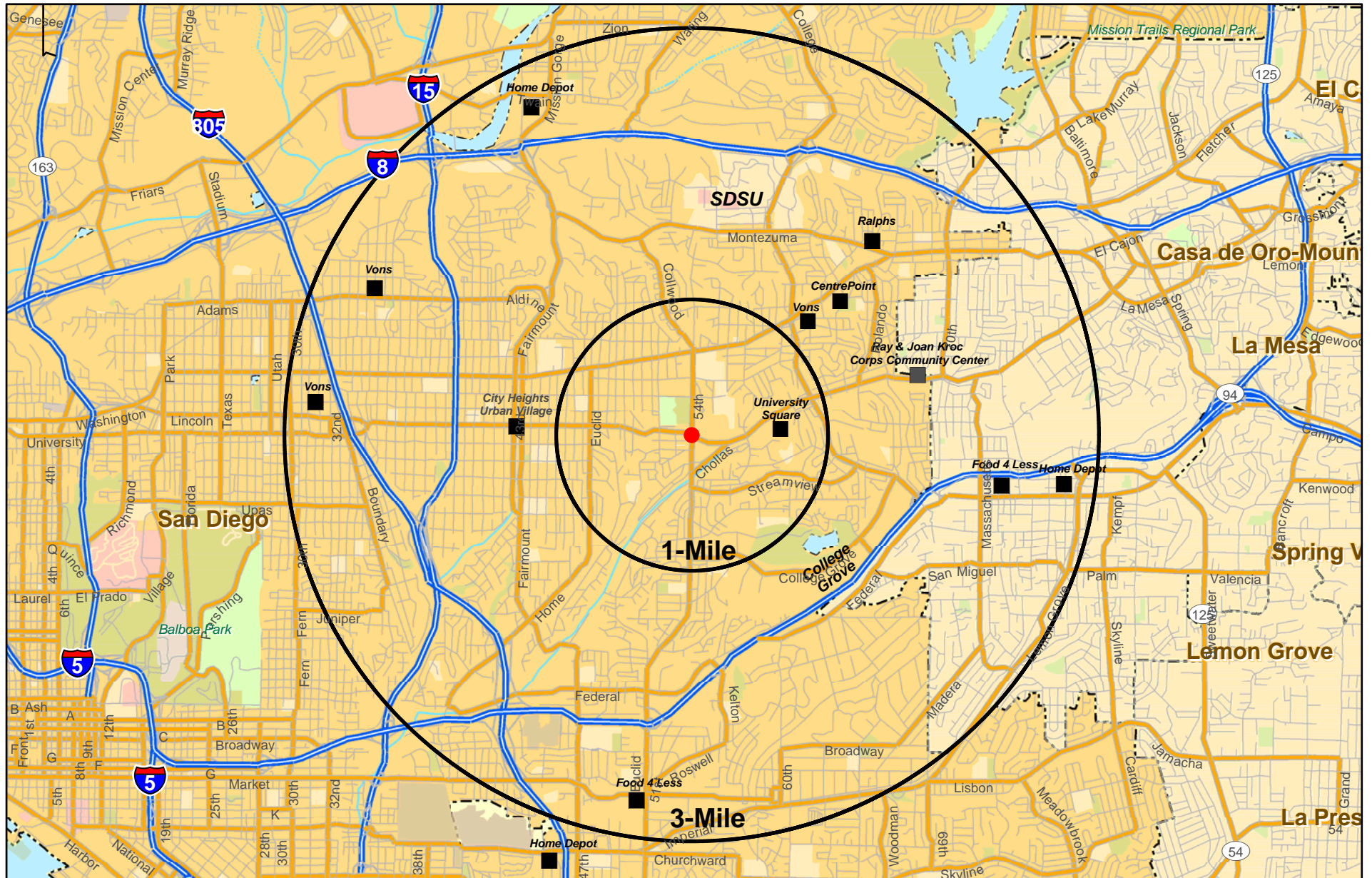


TABLE 1

ASSESSMENT OF STUDY AREA AND ENVIRONS  
 CHOLLAS VIEW  
 CITY OF SAN DIEGO

Study Area	<ul style="list-style-type: none"> <li>• A triangular configuration; bounded by 54th Street to the west; University Avenue to the north, and Chollas Parkway to the southeast</li> <li>• <u>Parcels</u> <ul style="list-style-type: none"> <li>20 Parcels on south side of University Avenue</li> <li>7 Parcels on north side of University Avenue</li> <li>27 Total Parcels (consisting of 14 different ownerships)</li> </ul> </li> <li>• <u>Current Uses</u> <ul style="list-style-type: none"> <li>Sears Essentials store (Sears does not own land)</li> <li>Lucky Star Asian restaurant</li> <li>Other small-scale retail and office uses</li> <li>Apartment complex</li> <li>Electrical transformer</li> </ul> </li> </ul>
Public Infrastructure/Amenities	<ul style="list-style-type: none"> <li>• Chollas Parkway in disrepair</li> <li>• Uneven topography represents challenge for site assembly, pad development, and internal circulation</li> <li>• Potential for flooding due to proximity to Chollas creek flood plain</li> <li>• Deficient public amenities, e.g., parks and open space</li> </ul>
Neighborhood Context	<ul style="list-style-type: none"> <li>• University Avenue corridor contains wide mix of vibrant commercial activity; inconsistent theme and physical character; blighting conditions and incompatible land uses</li> <li>• Neighborhood food markets</li> <li>• Asian retail and restaurant businesses; i.e., Lucky Star and Lee's Garden restaurants</li> <li>• Other local-serving retail</li> <li>• Villa View Community Hospital, a 100-bed hospital, north of University Avenue</li> <li>• Prevalence of older, obsolescent investment property with limited remaining useful life</li> <li>• Surrounding area is marked by mostly older 1- and 2-story single-family residential units</li> <li>• Home values in the area have risen dramatically in recent years</li> </ul>

TABLE 1 (CONT'D.)

ASSESSMENT OF STUDY AREA AND ENVIRONS  
CHOLLAS VIEW  
CITY OF SAN DIEGO

<p><b>Neighborhood Context (Cont'd.)</b></p>	<ul style="list-style-type: none"> <li>• University Square neighborhood/community center, 4 blocks east of study area:  <u>Tenants</u>  Food 4 Less  Pacific Cinerama 6  Home Town Buffet  Hollywood Video  Carl's Jr.  Wells Fargo Financial  99 Cents Store  Other local serving retail shops and services</li> <li>• KB Home currently under construction one block north of study area on a 4-story townhome development</li> </ul>
<p><b>Potential Site Assembly</b></p>	<ul style="list-style-type: none"> <li>• <u>Optimal Site Assembly Opportunity - South Side University Avenue</u>  17.1 Acres - Privately owned  10.0 Acres - Chollas Parkway ROW  <u>3.0</u> Acres - Creek area  30.1 Total Acres - South Side University Avenue</li> <li>• Total of 2.16 acres on the north side of University Avenue near Villa View Community Hospital, but divided by existing hospital entrance</li> <li>• Apartment complex and electrical transformer may be difficult/expensive to relocate</li> </ul>

TABLE 2

OVERVIEW OF MARKET FACTORS - RESIDENTIAL  
CHOLLAS VIEW  
CITY OF SAN DIEGO

Key Market Strengths	<ul style="list-style-type: none"> <li>• Strong demand for housing of all types throughout County</li> <li>• Countywide scarcity of residential land; increased developer interest in in-fill development</li> <li>• <u>Current and Recent Developments</u> <ul style="list-style-type: none"> <li>• Barrat American developing 58 townhomes in La Mesa beginning in the mid-\$400,000s</li> <li>• Carter Reese developing 26 townhomes at 64th and Akins beginning in the high \$300,000s</li> <li>• CentrePoint developing 97 market-rate townhomes on El Cajon Boulevard at 63rd Street starting in the mid-\$400,000s</li> <li>• KB Homes developing 90 townhomes one block north of study area with pricing anticipated in the mid-\$300,000s</li> <li>• DR Horton developing 85 units (flats, townhomes, detached) on El Cajon Boulevard - pricing is unavailable</li> <li>• Orange Walk developed by Olson five years ago at 54th Street and Orange Street</li> </ul> </li> <li>• Salvation Army Ray and Joan Kroc Corps Community Center a major amenity, located approximately 2.0 miles from study area</li> </ul>
Key Market Weaknesses	<ul style="list-style-type: none"> <li>• Lack of suitable development sites for assembly</li> <li>• Infrastructure deficiencies and topographical challenges</li> <li>• Perceived flattening (early 2006) in for-sale residential market</li> <li>• Rental rates inadequate to support new construction</li> </ul>
Overall Market Potential	<ul style="list-style-type: none"> <li>• STRONG <ul style="list-style-type: none"> <li>• Townhomes – 15 to 30 units/acre (max.)</li> <li>• Condominiums – 40 to 60 units/acre</li> </ul> </li> </ul>
Required Conditions	<ul style="list-style-type: none"> <li>• Site assemblage</li> <li>• Creation of open space and/or recreational amenities</li> <li>• Roadway and infrastructure improvements</li> </ul>



TABLE 3

OVERVIEW OF MARKET FACTORS - RETAIL  
CHOLLAS VIEW  
CITY OF SAN DIEGO

<b>Key Market Strengths</b>	<ul style="list-style-type: none"> <li>• Existing University Square represents major retail amenity</li> <li>• Strong Asian/ethnic business presence</li> <li>• Added population and spending potential from new in-fill housing developments</li> </ul>
<b>Key Market Weaknesses</b>	<ul style="list-style-type: none"> <li>• Chollas Triangle area not a retail node for eastern San Diego; current retail nodes are College Grove, City Heights Urban Village, and other community centers</li> <li>• 7 existing major chain supermarkets within 3-mile ring</li> <li>• Existing regional retail/entertainment destinations established at College Grove and proposed at SDSU (Paseo)</li> <li>• Many older commercial uses spread over linear corridors on shallow parcels, i.e., University Avenue and El Cajon Boulevard</li> <li>• Limited inventory of national or regional retail credit tenants in the area; concentration of "mom and pop" retail stores</li> <li>• Older retail buildings are predominantly geared toward the area's diverse ethnic community</li> <li>• Incompatible mix of uses within commercial corridors, i.e., automotive service/repair uses</li> </ul>
<b>Overall Market Potential</b>	<ul style="list-style-type: none"> <li>• WEAK TO MODERATE</li> <li>• New mixed-use development with re-built Sears Essentials as anchor tenant</li> <li>• Major chain drug store, i.e., Walgreen's, Rite-Aid, Sav-On, Longs</li> <li>• Opportunity for small grocer, i.e., Henry's, Sprouts, Jimbo's, etc.</li> <li>• Ethnic retail (e.g., businesses such as grocers and restaurants to serve local Asian and Somalian populations)</li> <li>• Small-scale, flexible retail space configured in a "village"-type mixed-use development</li> </ul>
<b>Required Conditions</b>	<ul style="list-style-type: none"> <li>• Site assemblage</li> <li>• Roadway and infrastructure improvements</li> <li>• Development of residential units in a mixed-use format to provide critical mass to support new retail uses</li> </ul>

TABLE 4

OVERVIEW OF MARKET FACTORS - OFFICE  
CHOLLAS VIEW  
CITY OF SAN DIEGO

<b>Key Market Strengths</b>	<ul style="list-style-type: none"> <li>• Closest notable office projects are Metro Center and Urban Village developments in City Heights; and Imperial Market Place on Imperial Avenue at the I-805</li> <li>• Most other office space scattered throughout the trade area consists of older low-rent buildings</li> <li>• Most office users are small, local-serving, price-sensitive tenants</li> </ul>
<b>Key Market Weaknesses</b>	<ul style="list-style-type: none"> <li>• Trade area not a regional office node; closest large submarkets to the study area are Mission Valley, La Mesa, and Downtown San Diego</li> <li>• Study area corridor does not offer visibility or access sought by office developers and users, i.e., distant from freeways</li> <li>• Existing office rents in Mid-City are generally too low to support cost of new construction</li> </ul>
<b>Overall Market Potential</b>	<ul style="list-style-type: none"> <li>• <b>WEAK</b> <ul style="list-style-type: none"> <li>• Extremely limited demand for local-serving and/or professional service tenants, most likely in a mixed-use (retail) context</li> <li>• Limited potential for multi-tenant small suite space, most likely in a mixed-use (retail) context</li> </ul> </li> <li>• Flex commercial space designed to accommodate either retail or office users</li> <li>• Possible demand for health care related uses based on study area's proximity to Villa View Community Hospital</li> </ul>
<b>Required Conditions</b>	<ul style="list-style-type: none"> <li>• Site assemblage</li> <li>• Roadway and infrastructure improvements</li> <li>• Development of residential units in a mixed-use format to provide critical mass to support new retail uses</li> </ul>

TABLE 5

PRELIMINARY ESTIMATES OF SUPPORTABLE LAND VALUE BY PRODUCT TYPE  
 CHOLLAS VIEW  
 CITY OF SAN DIEGO

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Product Type	Density	\$/Unit	\$/SF Land	Market Demand
<b>I. Residential</b>				
A. Townhomes	15 to 30 per acre	\$100,000 to \$150,000	\$40 to \$80 per SF	Strong
B. Stacked-Flat Condominiums (with structured parking)	40 to 60 per acre	\$25,000 to \$50,000	\$25 to \$50 per SF	Moderate
C. Rental	40 to 60 per acre	Negative value	Negative value	Strong
<b>II. Retail</b>	N/A	N/A	\$30 to \$40 per SF	Weak to Moderate
<b>III. Office</b>	N/A	N/A	\$15 to \$25 per SF	Weak

TABLE 6

SUMMARY OF COMPARABLE LAND SALES BY TYPE <sup>(1)</sup>  
CHOLLAS VIEW  
CITY OF SAN DIEGO

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	Median Price Per SF Land
Vacant Land (Table A-1)	\$23
Improved Land - Teardown (Table A-2)	\$50
Improved Land - Continued Commercial Use (Table A-3)	\$73

(1) Survey represents sales within a 3-mile radius of 54th Street and University Avenue, January 2004-present.

## **ATTACHMENT A**

### **COMPARABLE SALES OF LAND AND IMPROVED COMMERCIAL PROPERTIES**

TABLE A-1

COMPARABLE LAND SALES, 3-MILE RING, JANUARY 2004 TO PRESENT <sup>(1)</sup>  
 CHOLLAS VIEW  
 CITY OF SAN DIEGO

<u>Sale Date</u>	<u>Address</u>	<u>City</u>	<u>Sale Price</u>	<u>Acres</u>	<u>Land SF</u>	<u>\$/SF Land</u>	<u>Building SF</u>	<u>Property Use</u>
<b><u>Land Sales Without Existing Buildings</u></b>								
07/18/05	Denver S. of Chicago	La Mesa	\$1,800,000	5.65	246,114	\$7	N/A	Not Available
01/31/05	4905-4915 Catoclin Drive	San Diego	\$2,174,000	1.46	63,597	\$34	N/A	Hold for development
10/12/04	7604 El Cajon Boulevard	La Mesa	\$711,000	0.34	14,878	\$48	N/A	Hold for development
09/08/04	Menlo Avenue, S. of Olive Avenue	San Diego	\$455,000	0.46	20,000	\$23	N/A	Hold for development
08/30/04	3559 Vista Avenue	Lemon Grove	\$400,000	0.31	13,500	\$30	N/A	Not available
07/27/04	Naranja Street W. of 54th Street	San Diego	\$577,750	1.55	67,536	\$9	N/A	Construct multi-family units
07/16/04	Colony Drive W. of Comanche Drive	La Mesa	\$1,000,000	1.42	61,855	\$16	N/A	Construct five single-family units
03/17/04	4884 University Avenue	San Diego	\$400,000	0.14	6,250	\$64	N/A	Hold for development
02/13/04	SW Lemon Avenue & West Street	Lemon Grove	\$350,000	0.40	17,280	\$20	N/A	Not available
			Minimum	\$350,000	0.14	6,250	\$7	
			Maximum	\$2,174,000	5.65	246,114	\$64	
			<b>Median</b>	<b>\$577,750</b>	<b>0.46</b>	<b>20,000</b>	<b>\$23</b>	
			Average	\$874,194	1.30	56,779	\$28	

Source: CoStar Comps, Inc.

(1) Survey represents sales within a 3-mile radius of 54th Street and University Avenue.

Prepared by: Keyser Marston Associates, Inc.

Filename: i: San Diego\Chollas Pkwy\Comparable Sales;4/13/2006;wcl

TABLE A-2

COMPARABLE LAND SALES, 3-MILE RING, JANUARY 2004 TO PRESENT <sup>(1)</sup>  
 CHOLLAS VIEW  
 CITY OF SAN DIEGO

<u>Sale Date</u>	<u>Address</u>	<u>City</u>	<u>Sale Price</u>	<u>Acres</u>	<u>Land SF</u>	<u>\$/SF Land</u>	<u>Building SF</u>	<u>Property Use</u>
<i><u>Land Sales With Existing Buildings to be Demolished</u></i>								
12/08/05	6050 El Cajon Boulevard	San Diego	\$6,000,000	0.97	42,253	\$142	16,375	Hold for development
08/24/05	6456-6470 El Cajon Boulevard	San Diego	\$4,912,500	2.26	98,446	\$50	N/A	Construct a retail/residential building
07/18/05	4391-4395 El Cajon Boulevard	San Diego	\$2,300,000	0.57	24,880	\$92	N/A	Construct a retail/residential building
03/07/05	4365 Home Avenue	San Diego	\$3,433,154	6.58	286,624	\$12	10,896	Hold for development (gas station to remain)
02/16/05	6140 Mission Gorge Road	San Diego	\$900,000	0.32	14,000	\$64	2,000	Continued operation as a used car lot
12/07/04	7353 El Cajon Boulevard	La Mesa	\$1,140,000	0.59	25,700	\$44	8,352	Construct condominiums
06/10/04	602-606 Euclid Avenue	San Diego	\$2,000,000	3.23	140,699	\$14	600	Develop into a retail center
05/13/04	5702 Hardy Avenue	San Diego	\$759,000	0.21	9,000	\$84	N/A	University (College) building project
05/06/04	5855 Market Street	San Diego	\$400,000	0.43	18,795	\$21	448	Not Available
Minimum			\$400,000	0.21	9,000	\$12	448	
Maximum			\$6,000,000	6.58	286,624	\$142	16,375	
<b>Median</b>			<b>\$2,000,000</b>	<b>0.59</b>	<b>25,700</b>	<b>\$50</b>	<b>5,176</b>	
Average			\$2,427,184	1.68	73,377	\$58	6,445	

Source: CoStar Comps, Inc.

(1) Survey represents sales within a 3-mile radius of 54th Street and University Avenue.

Prepared by: Keyser Marston Associates, Inc.

Filename: I: San Diego\Chollas Pkwy\Comparable Sales;4/13/2006;wcl

TABLE A-3

COMPARABLE IMPROVED COMMERCIAL BUILDING SALES, 3-MILE RING, JANUARY 2005 TO PRESENT (1)  
 CHOLLAS VIEW  
 CITY OF SAN DIEGO

<u>Sale Date</u>	<u>Address</u>	<u>City</u>	<u>Sale Price</u>	<u>Acres</u>	<u>Land SF</u>	<u>\$/SF Land</u>	<u>Building SF</u>	<u>Year Built</u>	<u>Property Use</u>
11/23/05	5303-5305 El Cajon Boulevard	San Diego	\$915,000	0.29	12,750	\$72	6,857	1955	Free standing retail building
11/23/05	5821-5985 University Avenue	San Diego	\$41,027,175	20.00	871,200	\$47	181,999	1983	University Square
10/18/05	7702 Broadway	Lemon Grove	\$1,800,000	0.58	25,264	\$71	12,240	1956	Free standing retail building
09/22/05	6075 University Avenue	San Diego	\$1,775,000	1.38	60,080	\$30	8,000	1959	University Center
08/17/05	5803 Mission Gorge Road	San Diego	\$1,400,000	0.53	22,899	\$61	5,900	1959	Free standing retail building
08/05/05	7227 Broadway	Lemon Grove	\$2,000,000	0.51	22,240	\$90	13,280	1978	Mid-rise office building
06/30/05	4857-4861 Jessie Avenue	La Mesa	\$1,050,000	0.24	10,454	\$100	3,757	1954	Free standing retail building
06/30/05	3545-3549 Camino Del Rio S.	San Diego	\$3,975,000	1.13	49,368	\$81	21,000	1978	Multi-tenant low rise
06/10/05	3466-3472 Adams Avenue	San Diego	\$1,000,000	0.15	6,625	\$151	6,074	1951	Storefront retail/residential
04/22/05	3078-3096 N. Park Way	San Diego	\$1,260,000	0.14	6,250	\$202	8,161	1976	Office/Residential
04/06/05	1745 Euclid Avenue	San Diego	\$9,150,000	5.00	217,800	\$42	66,500	1960	Neighborhood/Community Center
04/05/05	2855 Lemon Grove Avenue	Lemon Grove	\$433,000	0.10	4,320	\$100	4,270	1957	Free standing retail building
04/01/05	4193 Adams Avenue	San Diego	\$1,375,000	0.16	7,020	\$196	5,876	1979	Multi-tenant low rise
04/01/05	7103-7155 Broadway	Lemon Grove	\$6,900,000	2.16	94,089	\$73	33,035	1971	Neighborhood/Community Center
03/24/05	7759-7765 University Avenue	La Mesa	\$650,000	0.39	16,988	\$38	3,200	1960	Storefront retail/residential
03/21/05	6849 Federal Boulevard	Lemon Grove	\$650,000	0.30	13,068	\$50	2,714	1972	Multi-tenant low rise
03/10/05	3519-3523 El Cajon Boulevard	San Diego	\$540,000	0.12	5,200	\$104	1,750	1935	Free standing retail building
03/10/05	6533 El Cajon Boulevard	San Diego	\$1,180,000	0.21	9,147	\$129	15,600	1948	Free standing retail building
01/05/05	3645 Camino Del Rio S.	San Diego	\$1,550,000	1.48	64,469	\$24	8,547	1969	Single-tenant low rise
Minimum			\$433,000	0.10	4,320	\$24	1,750		
Maximum			\$41,027,175	20.00	871,200	\$202	181,999		
<b>Median</b>			<b>\$1,375,000</b>	<b>0.39</b>	<b>16,988</b>	<b>\$73</b>	<b>8,000</b>		
Average			\$4,138,430	1.84	79,960	\$87	21,514		

Source: CoStar Comp, Inc.

(1) Survey represents sales of commercial buildings built before 1983 within a 3-mile radius of 54th Street and University Avenues.

Prepared by: Keyser Marston Associates, Inc.

Filename: i: San Diego\Chollas Pkwy\Comparable Sales;4/13/2006;wcl